

Message Text

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PAGE 01 LISBON 06664 261619Z

ACTION EUR-12

INFO OCT-01 ARA-10 EA-10 ISO-00 AID-05 CIAE-00 COME-00

EB-08 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00

XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 L-03 H-01 AGRE-00 /104 W

-----072734 261823Z /45

P R 261542Z AUG 77

FM AMEMBASSY LISBON

TO SECSTATE WASHDC PRIORITY 2816

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CARACAS

AMEMBASSY COPENHAGEN

AMEMBASSY BUBLIN

AMEMBASSY MADRID

AMCONSUL OPORTO

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL PONTA DELGADA

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMEMBASSY VIENNA

C O N F I D E N T I A L LISBON 6664

DEPT. PASS TREASURY FOR SYVRUD

PASS EXIMBANK

PASS FEDERAL RESERVE BANK

BRUSSELS FOR EC

PARIS ALSO FOR OECD

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E.O. 11562: GDS

TAGS: EFIN, ECON, PO

SUBJECT: PORTUGAL'S EXTERNAL SECTOR

1. ECONOMIC COUNSELOR MET MORNING OF AUGUST 26 WITH BANK
OF PORTUGAL GOVERNOR SILVA LOPES AND VICE GOVERNOR VITOR

CONSTANCIO. SILVA LOPES STATED THAT BANK OF PORTUGAL HAS ARRANGED POSPONEMENT OF SEVERAL LOAN REPAYMENTS AND NEGOTIATED ADDITIONAL SHORT-TERM CREDITS. THESE FACILITIES SHOULD MEET PORTUGAL'S EXCHANGE REQUIREMENTS THROUGH OCTOBER, BUT AT THE COST OF GREATLY AUGMENTING VOLUME OF OBLIGATIONS FALLING DUE IN DECEMBER.

2. REVIEW OF RECENT COMMERCIAL BANK INTERNAL REPORTS, SILVA LOPES STATED, INDICATES THAT RESERVE CRISIS OF LAST JUNE STEMMED MORE FROM SHARP NET REDUCTION IN COMMERCIAL BANK FOREIGN LIABILITIES THAN FROM PRIVATE SECTOR SPECULATION. (COMMENT: NATIONALIZED/BANKING SYSTEM, WHICH CONTINUES TO OPERATE MUCH LIKE PRIVATE COMMERCIAL BANKS, MAY HAVE BEEN SPECULATING AGAINST AN ESCUDO DEVALUATION.) HE ADMITTED, HOWEVER, THAT THE CURRENT ACCOUNT BALANCE FOR THE FIRST SIX MONTHS OF 1977 WAS WORSE THAN THE FIRST QUARTER RESULTS HAD LED BANK OF PORTUGAL TO EXPECT. IN FACT, TRADE ACCOUNT DEFICIT FOR JANUARY-JUNE 1977 WAS SUBSTANTIALLY LARGER THAN FOR SAME PERIOD OF 1976. AT LEAST PART OF THIS DETERIORATION, HE CONCEDED, PROBABLY STEMMED FROM SPECULATIVE IMPORTS.

3. GO HAS BEEN CONDUCTING BILATERAL NEGOTIATIONS WITH SEVERAL GOVERNMENTS ON IMPLEMENTATION OF LOA PROGRAM ANNOUNCED IN PARIS IN JUNE. NEGOTIATIONS WITH VENEZUELA HAVE BEEN CONCLUDED. AGREEMENT REQUIRES ONLY FINAL SIGNATURE
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OF PORTUGUESE FINANCE MINISTER. IT PROVIDES FOR THREE EQUAL DRAWDOWNS OF \$7.5 MILLION IN SEPTEMBER, OCTOBER AND NOVEMBER OF THIS YEAR; A SEVEN PERCENT INTEREST RATE; AND REPAYMENT OVER TEN YEARS BASED ON SDR VALUES. NORWEGIAN LOAN AGREEMENT ALMOST CONCLUDED, BUT MUST BE APPROVED BY NORWEGIAN PARLIAMENT. ONE-THIRD OF \$10 MILLION CREDIT WILL BE DRAWN IN NOVEMBER, THE BALANCE IN 1978. SWISS DISCUSSIONS HAVE ADVANCED SIGNIFICANTLY, BUT SEVERAL QUESTIONS ARE UNRESOLVED. BOTH SWISS AND NORWEGIAN LOANS PROVIDE FOR SEVEN PERCENT INTEREST AND TEN YEAR AMORTIZATION, AND ARE CONDITIONED ON A PRIOR GOP AGREEMENT WITH IMF FOR SECOND TRANCHE STANDBY. IN ADDITION, TO ABOVE CANADA HAS INDICATED ITS INTENTION TO OFFER GOP A GRANT OF WHEAT VALUED AT \$15 MILLION. FRANCE HAS PROPOSED A "TIED" CREDIT, BUT BANK OF PORTUGAL HAS DELAYED ITS RESPONSE IN HOPES FRANCE WILL ALTER ITS PROPOSAL. OTHER EUROPEANS, AND NOTABLY SWISS, HAVE REPORTEDLY EXPRESSED STRONG OPPOSITION TO TIED PROVISIONS OF PROPOSED FRENCH LOAN.
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Message Attributes

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Sent Date: 26-Aug-1977 12:00:00 am
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Disposition Approved on Date:
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Disposition Date: 22 May 2009
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